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SUBJECT: KAZAKHSTAN: CONOCO'S CEO ON THE N BLOCK NEGOTIATIONS

REF: (A) ASTANA 0352 (B) 08 ASTANA 2465

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11. (SBU) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On March 20, ConocoPhillips (Conoco) CEO Jim Mulva briefed the Ambassador on the status of negotiations with national oil company KazMunaiGas (KMG) to explore and develop the offshore N Block. Mulva expressed frustration with the pace of negotiations and said that Minister of Energy and Mineral Resources Sauat Mynbayev "has been pushing us harder and harder." Mulva was scheduled to meet with Prime Minister Masimov later that day, but as he explained to the Ambassador, "Mynbayev has the call" on the details of the deal. Conoco representatives also commented on Russia's influence over trans-Caspian crude exports, negotiations with Azerbaijan's national oil company, the possibility that European producers would ship crude to Iran, and prospects for onshore oil and gas exploration in Turkmenistan. END SUMMARY.

JUST ONE-HALF OF ONE PERCENT AWAY FROM A DEAL

13. (SBU) On March 19, the Ambassador met briefly with KMG First Vice President Maksat Idenov, who said the parties are close to agreement, with the only remaining obstacle the internal rate of return on the project (reftel A). Idenov said that Conoco has requested 12.8 percent, or 0.5 percent more than the government is willing to offer, but he did not believe that the issue was a deal-breaker. Idenov told the Ambassador that he expects to sign the contract with Conoco during the first two weeks of April, at which point he will turn his attention to a proposal from ExxonMobil to develop onshore resources in the north Caspian and will attempt to jumpstart negotiations on the Kazakhstan Caspian Transportation System (KCTS).

NO GUARANTEED TAX STABILITY

14. (SBU) Conoco's Nick Olds, company president for the Caspian region, confirmed to Energy Officer on March 18 that he expects negotiations on the N Block to conclude by mid-April. He said that Conoco will commit to drilling three wells, the first in 2010, and expects early oil by 2019. Ultimately, Olds said, the field will produce up to 500,000 barrels per day. He said that the new contract will comply with the new Tax Code and will not be tax-stabilized. "That means there are a lot of levers they can pull," he said.

CITIGROUP EXPECTS KAZAKHSTAN'S ECONOMY TO RECOVER

15. (SBU) When asked how the financial crisis has affected the business climate in Kazakhstan, Mulva said companies negotiating for new opportunities "have to give the government financial support." (NOTE: As part of the Kashagan negotiations, ExxonMobil provided the government a long-term, low-interest loan that KMG used to increase its shareholding in the consortium. END NOTE). Nevertheless, Mulva said that the head of Citigroup's Moscow office recently told him that "of the big three -- Russia, Kazakhstan, and Ukraine -- Kazakhstan has the best prospects for a quick economic recovery."

KASHAGAN PROGRESS "SLOW"

16. (SBU) Commenting on Kashagan, Mulva said it has taken some time for the management of the project to transition from Italy's Agip to France's Total. "It's been slow," he said. Don Walleth, president of ConocoPhillips Russia Inc., added that it has been difficult to recruit and place talented, experienced Kazakhstani and expatriate staff, although he said that has changed in recent months, as the economic crisis has continued. "People used to tell us they had no interest in going to Atyrau," he said, "but now they're calling us back, saying, 'I'd love to work in Atyrau.'" Walleth also indicated that the recession has helped free up drilling rigs in the Caspian.

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"There's not an oversupply," he said, "but we think they'll be there when we need them. We've got some good leads on a couple of rigs right now."

KAZAKHSTAN ABLE TO WITHSTAND RUSSIAN PRESSURE

17. (SBU) When asked about Russia's influence over KCTS, Walleth said he did not think Russia would attempt to block or undermine the project. "As long as it's just a tanker shuttle program and not a trans-Caspian pipeline," Russia will not oppose it, he said. He added that Kazakhstan has been able to act independently toward Russia in the past. "Kazakhstan seems to be able to make its own decisions," he said.

EUROPEAN THREAT TO SHIP TO IRAN INCREASES NEGOTIATING LEVERAGE

18. (SBU) Walleth added that it has been "very tough" negotiating with the Azeris on KCTS and he said that having the option to ship Kashagan crude to Iran would give European companies in the Kashagan consortium leverage in negotiations with Azerbaijan. "It's good to have the Europeans talking about shipping to Iran -- representing themselves, of course. That puts pressure on the Azeris to conclude a deal for trans-Caspian shipments."

CONOCO STRENGTHENS BID FOR EXPLORATION IN TURKMENISTAN

19. (SBU) Turning to Turkmenistan, Mulva disclosed that two weeks ago, ConocoPhillips invited Abu Dhabi's Mubadala, their partners on the N Block consortium, to join their bid with Lukoil to develop three offshore blocks in Turkmenistan. He told the Ambassador that Conoco would be the lead operator of all three blocks. Mulva said he hopes that the close relationship between President Berdimukhamedov and Sheikh Muhammad will help the consortium's bid. "[Oil and Gas Chairman Tachberdy] Tagiyev has been a firm gatekeeper to the president," according to Mulva. "Berdimukhamedov's not seeing anybody at the moment."

MILAS